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2010 Market Outlook

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We will be glad to say goodbye to 2009's market and economic volatility; as well as the last decade, which saw the world turned upside down as a result of the 9/11 tragedies, two huge stock market shocks, eight years of war in the Middle East, the devastating Gulf hurricanes, two major recessions, and the colossal real estate and financial meltdowns. Fortunately, 2009 is ending with the economy and global financial markets in much better shape than seen when it began. The banking system and economy stabilized, albeit with massive injections of funds from the Fed and through various federal spending programs like the Troubled Asset Relief Program (TARP) and the \$780 billion American Recovery and Reinvestment Act passed back in February. Another catalyst was the change in mark-to-market accounting rules enacted by the SEC in early March. At the end of November, the major U.S. stock market indices have rebounded approximately 60% off their cyclical market bottom seen in early March and year-to-date the stock market is up from 17% for the Dow Jones Industrials to 35% for the NASDAQ Composite. The ten-year Treasury note yield rose from 2.25% to 3.20% after touching as high as 4% back in May. Commodity prices rose spectacularly during 2009 as traders sold dollars and moved funds into gold, which hit an all-time high of \$1200/ounce, and crude oil, which rose from \$35/barrel to \$76/barrel at the end of November.

Looking ahead to 2010, we project the U.S. economy will continue to slowly recover and the banking system will continue to stabilize, although it will remain a challenge due to increasing commercial real estate loan write-offs. We believe the US economy (GDP) will grow at a 2.5% annual rate. We expect the recovery track will be well below normal for the first year coming out of recession. We do not expect the unemployment rate, currently standing at 10.2%, to begin to recede until mid-year as businesses decide to wait until details of the Healthcare Reform bill become known and other tax-related legislation such as the energy cap-and-trade tax and potential marginal personal income, capital gains, and dividend tax rate increases are made known and passed into law. This may not happen until mid-year at the earliest. We expect corporate revenue growth to return to positive territory during the first quarter and slowly increase throughout 2010. We expect that to translate into 8% to 10% operating earnings growth for the S&P 500.

We are projecting a very modest increase in short-term interest rates beginning in the third quarter of 2010 as the Fed begins to reverse its policy of extreme easing and takes back interest rate cuts made during the height of the financial crisis in 2009. We see the yield on the 10-year Treasury note backing up to the 3.50% to 4.0% range by year-end 2010 as investors become more concerned about the possible inflationary impact of the Fed's easy monetary policy and massive federal fiscal spending and budget deficits. We expect to see the dollar continue to weaken throughout the year against global currencies as long as the Fed maintains its current policy of near-zero short-term interest rates. We see the global dollar carry-trade being maintained at current levels throughout most of 2010. Consequently, we are projecting gold prices to possibly rise above \$1300/ounce in 2010 and crude oil futures will remain in the \$65 to \$100 range in 2010. Investors should keep in mind that the currency, commodity futures, and interest rate markets are very volatile and react instantaneously to global economic and geopolitical events including changes in the monetary policy of the global central banks and political based regulatory actions like trade restrictions and actions by sovereign monetary authorities to stabilize currencies.

We are projecting the major US stock market indices to post modest gains in 2010, potentially rising between 8% and 12% over the next twelve months, a rate of return that would be well below the return normally experienced during the first year of an economic recovery. We expect another year of above average daily stock price volatility, but well below that of 2008 and 2009. We expect most of next year's gains to occur during the first half of the year. Investors feared a financial Armageddon during the first quarter of 2009. We do not expect a repeat performance of the factors that produced those extreme fears during 2010. We do expect the financial system to have momentary ups and downs during the year as the banking system struggles to repay government supplied short-term debt, deals with above average credit risks, and large amounts of financial derivatives and other forms of toxic assets that still remain on their balance sheets.

We expect the stock market to benefit from continued expansion of the global dollar carry trade in early 2010 as well as improving investor expectations related to slow, but steady, improvement in the U.S. and global economies. We believe investors continue to hold too much cash and are too fearful of a repeat of the financial meltdown seen a year ago. Thus, we expect that investors will slowly commit funds into the equity markets on dips, as it provides the most compelling investment opportunity in light of low interest rates. We believe the primary risks to our forecasts include the potential for an abrupt end of the dollar carry-trade which could trigger quick selling of hard assets including stocks, a quicker than expected reversal in the Fed's monetary policy, negative market reaction to the Administration's tax increases under consideration, an economic recovery that is more anemic than we envision, and unexpected geopolitical events that continue to spring up.